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WineMarket Brief

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Report Highlights:

Having recovered strongly from the impact of the 1998 economic downturn, wine imports are expected to grow at double digit rates through 2005. Wine imports in the first quarter of 2000 were up 156% from the same period of 1999. Between 1992 and 1997, wine imports more than quadrupled from \$5.6 million to \$22.8 million. In addition, the U.S. market share continues to increase. These factors equate to abundant opportunities for U.S. exporters.

Includes PSD changes: NoNo

Includes Trade Matrix: NoNo

Unscheduled ReportUnscheduled Report

Seoul ATO [KS2]Seoul ATO [KS2], KSKS

Market Brief on Wine

June 2000

1. Market Prospects

Summary

Having recovered strongly from the impact of the 1998 economic downturn, wine imports are rapidly increasing to meet the surging consumer demand and are expected to grow at double digit rates through 2005. Wine imports in the first quarter of 2000 were up 156% from the same period of 1999. Industry experts predict with confidence that 2000 will set a new record high wine imports. Until hit hard by the economic crisis, wine imports expanded rapidly, reaching a record high of \$22.8 million in 1997. Between 1992 and 1997, wine imports more than quadrupled from \$5.6 million to \$22.8 million. The U.S. share of the market has continuously increased, reaching 14.9% of market share by value in 1999. Red wine is leading the market with 70-80% of market share. Local wine production is decreasing due to its lack of price and quality competitiveness. Although U.S. wines are constrained by a lack of promotional support and education on the part of the U.S. wine industry, many importers are actively seeking new-to-market U.S. wines, which spells “opportunity” for U.S. suppliers.

Advantages

- Ž High consumption of alcoholic beverages
- Ž Increasing consumption/demand for wine
- Ž No quotas
- Ž Rising reputation of U.S. wines
- Ž Lack of local competition
- Ž Highly publicized health benefits of wine

Challenges

- Ž High consumer prices
- Ž Lack of consumer/ trade awareness
- Ž Lack of attention to Korean market by U.S. wine exporters
- Ž Complex labeling and tax requirements

2. Tariffs, Taxes and Pricing

Ž Consumer prices for wine are quite high. A combination of import duty and taxes, and large distribution costs and mark-ups results in retail wine prices two to four times those in the U.S.

Ž Korea applies a complicated tariff and tax system to imports of alcoholic beverages. Those applied to wine follow:

- A. Tariff: 15 percent
- B. Liquor Tax: 30 percent
- C. Education Tax: 10 percent

Ž Imported wines are subject to a relatively lower duty and taxes compared to other imported alcoholic beverages. For example, the imported beer duty is 30%, the liquor tax 115%, and the education tax 30%. The imported whisky duty is 20%, the liquor tax 72%, and the education tax 30%. The relatively lower taxes on wine was originally intended to promote local production of fruit wine.

Ž Following is an example of the effects of taxes and mark-ups on a CIF \$10 bottle of wine:

A. CIF value:		\$ 10
B. Tariff (Customs Duty):	$A \times 15\% =$	\$ 1.5
C. Wine Tax:	$(A+B) \times 30\% =$	\$ 3.45
D. Education Tax:	$C \times 10\% =$	\$ 0.35
E. Subtotal:	$(A+B+C+D) =$	\$ 15.30
F. *Value Added Tax:	$E \times 10\% =$	\$ 1.53
G. **Fees for Customs Clearance, etc.:	$A \times 8\% =$	\$ 0.8
H. Customs cleared cost of wine:	$E+F+G =$	\$ 17.63

* The Value Added Tax is refunded to the importer because the tax is carried over to the final consumers.

** In addition to the duties and taxes, additional cost of 7-8% of CIF value will occur due to customs clearance fee, warehousing fee, transportation fee, etc. The amount of this additional cost depends mainly on the kind of inspection the shipment is subject to. For example, the warehousing fee will increase significantly in case a detailed inspection is required.

I. Typical Importer Mark-ups (each mark-up calculation is based on \$16.10, the customs cleared cost (H) minus value added tax):

- 1. Importer's selling price to discount store: \$20.93 (mark-up 30%)
- 2. Importer's selling price to supermarket/liquor store: \$22.54-24.15 (mark-up 40-50%)
- 3. Importer's selling price to luxury hotel: \$22.54 (mark-up 40%)
- 4. Importer's selling price to wholesaler: \$18.52-20.93 (mark-up 15-30%)

J. Typical Retailer Mark-ups:

- 1. Discount Store's selling price: \$22.60-25.12 (mark-up 8-20%)
- 2. Supermarket & Liquor store's selling price: \$29.30-33.81 (mark-up 30-40%)
- 3. Luxury hotel restaurant's selling price: \$67.62-112.7 (mark-up 200-400%)

Thus, a CIF \$10 bottle of wine typically sells for about \$23-25 at discount stores, \$29-34 at supermarkets and liquor

stores, and \$68-113 in hotel restaurants. The cost for advertising and promotions, payment conditions (i.e. cash versus 60 days credit), and sales volume cause the big price differences between discount stores and liquor stores.

3. Labeling

Ž The Korean language labeling requirements for wine are as follows.

1. Name of the product
2. Country of origin
3. Type of the product
4. Importer's name, address and phone number
5. Business license number of importer
6. Expiration date
7. Alcohol percent and volume
8. Name and volume of ingredients by percentage
9. Name of place where the product can be returned or exchanged in case the product is damaged or defective.
10. Instructions for storage.
11. Name of food additives
12. Government's health warning clause
13. Bottling date

Ž The Korean labeling requirement for bottling date was newly introduced in 1999.

Ž The "Sulfite" labeling requirement poses potential negative consumer health concerns, while FDA maintains conventional use of sulfites in wine has no health risk.

Ž Korean labeling requirement for alcohol content maintains 0.5% tolerance level on the difference between the labeled and actual alcohol content, which is much tighter than the U.S. standard, 1.5%. U.S. wines manufactured under the higher tolerance level often fail KFDA's inspection.

4. Inspections

Ž All foods and beverages are subject to Ministry of Health and Welfare/Food Quarantine inspection. There are two kinds of inspections: A detailed inspection (chemical analysis test) and visual inspection (eye/document inspection).

Ž The first shipment is always subject to a detailed inspection which under Korean law should take a maximum of 10 working days (but in practice can take much longer). Subsequent shipments are subject to visual inspections which should take no more than 2 calendar days if the product is identical in label, product name, alcohol degree, vintage, and net weight (milliliter) of the first shipment. Importers are required to submit front (English label) and back labels (Korean language label) to food inspection authorities.

Ž Established importers are well aware of all inspection and labeling requirements and are the best source of current information on labeling and inspection.

5. Market Situation

Ž The Korean economy grew nearly 10% in 1999, and the growth is expected to continue, reaching 7-8% in 2000 and 6% in 2001. As the Korean economy regains its strength, wine imports are rapidly increasing to meet the surging consumer demand. Wine imports in the first quarter of 2000 were up 156% from the same period of 1999. Wine imports for 2000 are expected to surpass the record high of 1997.

Ž Traditionally, Korea is among the heaviest alcoholic beverage consuming markets in the world. Drinking is considered to be a very important part of social life in Korea and is often recommended for many social occasions. In 1999, Koreans consumed a record high amount of alcohol, 340,600 Kiloliters (Ethyl-alcohol as an ingredient of liquor products), which is equal to 7.3 Liters of per capita alcohol consumption (7.1 Liter in 1997 and 6.8 Liter in 1998). Statistical data from the Korea Liquor Industry Association indicates that every Korean consumed 58.9 bottles of Soju (360 ml/bottle), 61.4 bottles of beer (500ml/bottle), and 1.28 bottles of whisky (500ml/bottle) in 1999. Drinking is very popular among males over 18, and among young females in their twenties and early thirties.

Table 1: Korea - Alcoholic Beverage Consumption

(Unit: Million Liter)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total	2781	2902	2873	2987	2972	2866	3145	3164	3206	3134	2922
Takju/ Yakju	774	712	564	442	379	322	303	249	215	190	191
Soju	706	709	702	678	723	744	765	762	787	814	870
Beer	1023	1195	1308	1584	1574	1509	1769	1850	1868	1799	1537
Whisky	6.8	8.2	8.6	9.9	11.2	11.6	15.2	16.5	13.8	11.0	8.1
Others ^{a/}	271	278	291	273	284	279	292	286	321	320	317

a/ Others include: principally wine and fruit wine.

Source: Korea Bureau of Taxation

Ž Trends in Korean alcoholic beverage consumption can be summarized as “westernizing” and “increasing concerns for healthier drinking”. Consumption of western alcoholic beverages such as wine, beer, and whisky has rapidly expanded mainly because of the westernization of life-style and dietary culture. Consumption of Soju (a traditional Korean hard liquor originated from Russian vodka) has been steady due to its cheap price (below \$1/360ml bottle retail price) and the big success of newly introduced “weaker” Soju brands (lower alcohol content), while Takju and Yakju (traditional Korean rice wines) have lost much of their share (See Table1). At the same time, many Korean drinkers, especially males in their late forties and older, are switching from hard liquors, mostly Soju, to weaker alternatives including wine, beer, and weaker Soju due to their increasing concerns for “healthier drinking”.

Ž Higher incomes, increasing popularity of wine, highly publicized health benefit of wine, increasing popularity of drinking among young female, and westernization of life style especially among younger Koreans have resulted in rapid increases in wine consumption which are expected to continue for the foreseeable future.

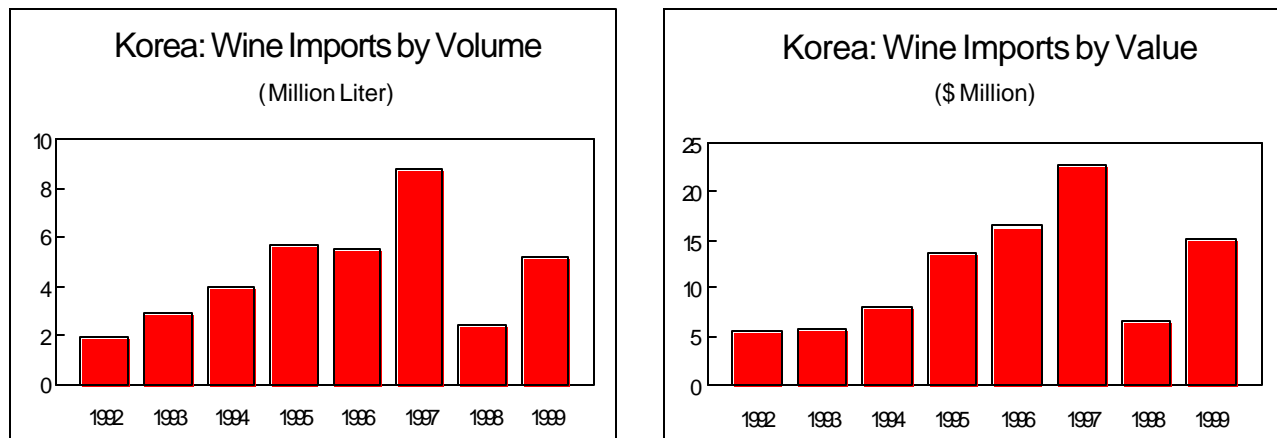


Figure 1: Korea Wine Imports

Source: Korea Trade Information Service

Ž Wine imports before the economic crisis were “explosive”. From 1992-1997 wine imports more than quadrupled in both value and volume (See Figure 1). However, a 50% drop in bulk wine imports in 1996 resulted in a slight drop of the total imports of volume. The increase in value was due both to higher prices and growth in bottled wine imports.

Ž Wine importers expect the Korean wine market to expand at double digit rates (10-30%) through the year 2005. The greatest potential is for medium and higher quality wines. Red wine leads the market with 70-80% of market share and is expected to dominate the market in the coming years because of its highly publicized health benefits. White wine comprises about 20% of the market share, and sparkling wine and dessert wine 1-2%. Projected growth rate over the next five years is 30-40% for red, 10-20% for white, 10-30% for sparkling, and 5% for dessert wine.

Ž Wine is still a relatively new product in Korea. In spite of the heavy consumption of various alcoholic beverages among Koreans, wine comprises only 0.2-0.4% of alcoholic beverage consumption by volume. Consumers, retailers, and even many importers have limited knowledge of wines.

Ž French wine has traditionally dominated imports. However, the reputation and demand for U.S. wine is growing rapidly. Imports of U.S. wine has grown faster than total wine imports since 1993. With 14.9% of market share by value in 1999, U.S. wine is the second player in the market (the leader is France with 55.4% of market share in 1999). English is the most popular foreign language in Korea and consumers often find it easier to select U.S. wine than European ones partly because U.S. wines have relatively simpler labels, which are more readily understood by purchasers.

Ž Importers can import wine without any quota restrictions.

Ž Wine can be imported only by licensed wine/liquor importers. There are about 150 wine importers in Korea but only 20 of these actively import. Most importers also have a wholesaler’s license which allows them to distribute to retailers. However, according to the Korean Liquor Act, retailers and end-users may not purchase from other retailers/discount stores for re-sale purposes. These restrictions explain the broad range of prices charged for the same wine. Some importers have their own retail stores under different licenses. U.S. wine exporters should contact licensed wine

importers to sell their wines in Korea.

Ž Wine imports were opened to all qualified importers in 1988. Before then, wines were imported only through the Korean National Tourism Organization (KNTO) who supplied them only to registered “member” tourist hotels.

Ž Medium priced wines are generally sold at liquor stores, discount stores and supermarkets, high priced wines, usually at hotel restaurants. Wine sales fluctuate seasonally because many consumers purchase wines for seasonal gifts. The biggest volume of wine is sold in the form of gift sets (2-3 bottle package) during New Year’s day and Chusok, Korean Thanks Giving day. Sales during these holiday periods comprise more than 50% of total annual wine sales.

6. Competitors

Ž The EU, especially France, has traditionally dominated the Korean wine market with about 80% market share. However, the U.S. market share has been increasing steadily, reaching nearly 15% in 1999. While the reputation and demand for U.S. wine is growing rapidly, US suppliers can best benefit by participating in wine tastings, food shows, and more importantly, by coming to Korea to establish personal contacts.

Ž French wineries participate in some of the major Korean food shows and hold wine seminars and tastings every year sponsored by the French Embassy but funded by SOPEXA, the French Food and Beverage Promotion agency. Germany, Italy, Australia, Chile, and other competitors also take part in various food shows in Korea and hold tastings and receptions for wine importers and food service outlets.

Ž Although changing, French wines are still generally perceived by the public to be superior to U.S. wines. The word “French” is often still synonymous with “wine” in the consumer’s mind.

Ž Many local wine importers often find it difficult to obtain information about new-to-market U.S. wines and where or how to source them, because no combined and systematic marketing efforts by U.S. wine exporters are given to Korean market currently.

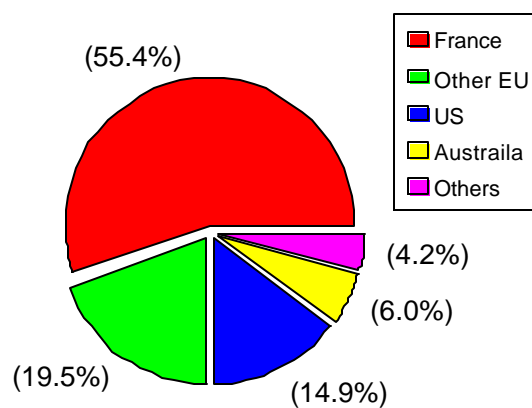


Figure 2: Wine Imports Market Share by Country Based on Value (1999)

Source: Korea Trade Information Service

Ž Many wine importers indicated that they believe the import price of U.S. wine (CIF value) is about 30% more expensive than import wines of similar quality from other countries including France and Italy.

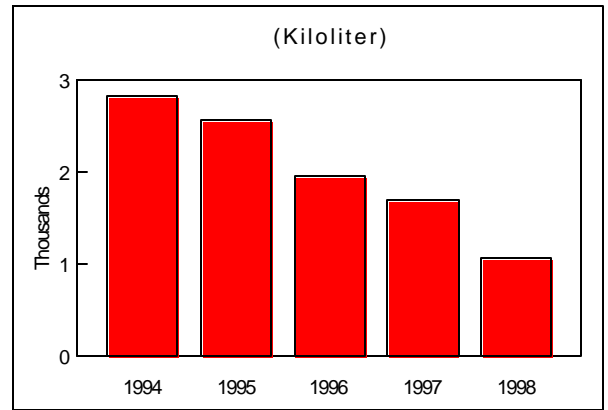


Figure 4: Korea - Local Wine Production

Source: Korea Liquor Industry Association

7. Local Production

Ž Korean wine grape production is negligible. *The Korea Food Yearbook '99* predicts wine grape production will gradually disappear due to the high cost of vineyards and a lack of international competitiveness.

Ž Published statistics on local wine production for 1999 were not yet available at the time of this report. Much Korean label wines are actually rebottled from imported bulk wine.

8. Importers List

Ž Please contact ATO Seoul directly (see below).

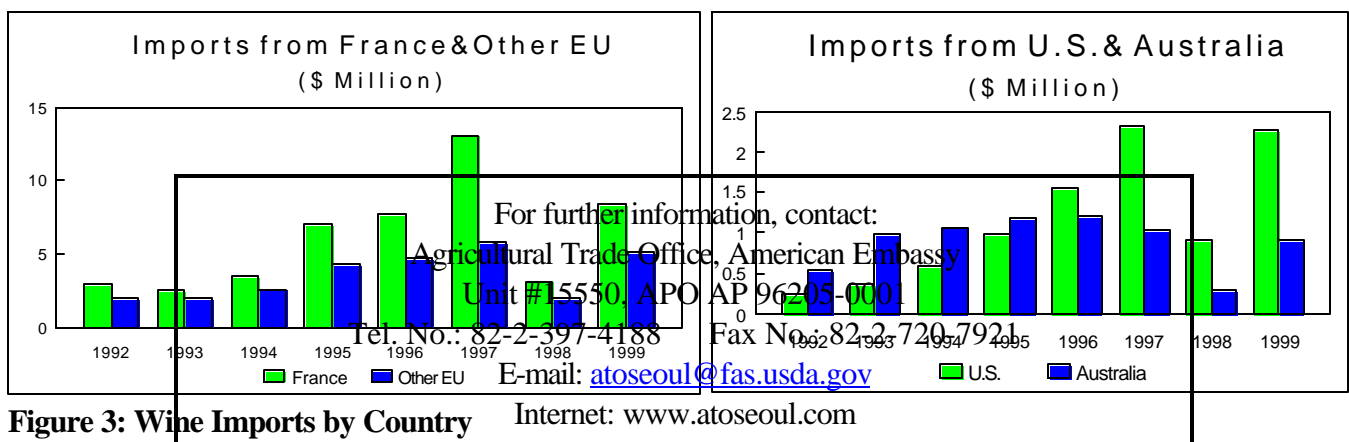


Figure 3: Wine Imports by Country

Source: Korea Trade Information Service

